



Reforms in GST Within India: The Timely Need for Better Compliance And Revenue Generation

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Abstract: *A country's tax system is the backbone of its economy. In ancient times, the Indian economy was based on agriculture. In the Middle Ages, the focus of world business shifted from agriculture to industry, and the source of revenue for business and government was mainly derived from the production and consumption of goods. The British rulers seeded the modern taxation system in India and, as mentioned here, it was based on consumption and production. As people's needs changed, the production of goods had to change; thus, frequent changes in production and consumption led to changes in the taxation system to generate more revenue.*

In this paper, a discussion is made that is based on an empirical study and on certain available statistics of tax collections. Some inferences are drawn, and suggestions are also provided for smooth compliance with taxation in India.

Keywords: *GST, ITC, Direct Tax, Indirect Tax.*

Introduction & Brief History: The concept of levying taxes originated in the Middle Ages of modern civilisations on this earth. The concept was not so popular in the regime of the Ramayana & Mahabharata. This concept existed in the Middle East, Asia & Europe. In India, at most 1800 years ago, the legend in Political Science and Economics, Acharya Chanakya has introduced the tax levying concept.

India, after its independence, set up the Planning Commission in 1951, which then assessed and searched the problems faced by our country, and these problems were mainly envisaged in the form of Social and Fiscal nature. To cop up with the situation the commission then advised the Government that the measures to be taken to remove the poverty by adopting the policy in such a manner that the economy can be compensated by collecting the revenue from the economically capable segment of the society and this amount can be used for the unprivileged segment of the society for parting the gap between the higher earners and lower earners within the country. The Planning Commission then pinpointed the role to the Government and explained the importance of the production of goods and services (business) to earn the money for the people, which can sort out the fiscal problems of the citizens of our country; thus, the industries were set up, and the Ministry for Trade and Commerce was formed. The importance of currency was already there as a medium of exchange; the role of currency was controlled and managed by the Reserve Bank of India. Accordingly, the master planner then subsumed the functions and role of Business and RBI in the Ministry of Finance, to build the economy of the nation to earn the money for the people and for the Government.

The Ministry of Finance is accordingly making changes in the taxing system. In India, the taxes are broadly categorised into Direct and indirect forms. The Income Tax Act, 1961, is a comprehensive example of direct tax in India, and the Goods & Services Tax is a suitable example of indirect tax.

The factors affecting the need for change and reforms are introduced from time to time: There are 5 rates of tax under GST, which are: **0%, 3%, 5%, 12%, 18% and 28%** the dealers will be required to collect the tax on their transfer of goods or services or on both, and required to file only one return.

Problems faced under GST regarding filing of GST returns: After the applicability of GST, its implementation is causing hardship to the business community. The business community is still required to file their indirect tax returns in a three-fold manner. That is, firstly, a monthly return to be filed, termed as Form GSTR-3 B, in which the dealer must show the liability or excess of tax, in his case. Then, for the same month, the dealer must file a Sales return, and that is to show a bill-wise detail in Form GSTR-1. The dealer is not required to file a purchase return, but the dealer must check his purchases in the Return Form GSTR-2, which is auto-populated, showing whether his supplier has shown the sale made to him or not in the supplier's GSTR-1. Thus, it is a full-time job for the dealer to verify and check the GSTR-2 Return, which the supplier of his has not shown to him. If any supplier has not shown any sales to a particular dealer, then such a dealer is required to communicate with that defaulting supplier. Then, such a supplier may check their GSTR-1. If the supplier finds any such omission, then he may correct his GSTR-1 Return for that month. Thus, the series of checking and verification is a continuous process, which is time-consuming for the business, where the business is of a higher quantified type of business. These problems are ultimately causing the loss to business in two ways: firstly, by expending more in hiring the skilled staff, and secondly, losing the time of business, which is adversely affecting the sales of the business.

Reforms required: The concept of GST is a welcome step by the Government, but there are certain changes required as a reform in the indirect tax. No doubt the government has subsumed maximum taxing statutes in a single Act known as GST, but the following areas are to be considered as susceptible issues in case of indirect tax within India.

Problems and Suggestible Solutions:

A) The rates of GST: There are too many rates of GST as 0%, 3%, 5%, 12%, 18%, and 28%. Which are required to scale down. It is evident from the Income Tax that the liberal rate of tax increased the number of assesses.

Introduction of GST 2.0 with effect from 22/09/2025

The slab rate of tax in GST after 22/09/2025: 0% 3% 5% 18% 40%

The slab of 12% and 28% subsumed in 18%

Suggestions as to The Rate of Tax

No 0 % rate should be required. Though the goods of basic need like grains, pulses, fresh milk, etc., are zero-rated. But there is a much higher rate of tax in the transportation of such zero-rated goods, for example, salt is tax-free, but the transportation cost, which is subject to GST, is too high; therefore, 0% goods are taxed @1%.

To compensate for the relief in tax, the higher slabs of rate (12%, 18% & 28%) should be subsumed in a single moderate rate of 5%. Thus, there should be only two rates of tax: 1% and 5%, no tax-free nor higher rated tax of goods at 12%, 18% and 28% are required. It seems that the goods are broadly categorised in different rates of tax, and the schedules of rate of tax are very technical in nature, and the dealers are tactfully or mischievously categorising their goods in the lower rate of tax group, and this leads to litigation in the

court of Law when they are caught by the Tax Department for deciding the rate of tax. Only two rates of taxes can avoid such litigations and the ambiguity in understanding the schedules.

B) ITC (Input Tax Credit): Problems faced by the trade in claiming the ITC (Input Tax Credit) in the purchases. This is the biggest and serious problem for the Government and for the dealers, that there are many cases where the suppliers of goods or services are failing to pay the tax or suppressing their sales quantum. This leads to breaking the chain of distribution of goods or services or of both from the suppliers to their buyers. It is discussed here in above that a buyer-dealer must watch the return Form GSTR-2 to see whether their supplier has paid tax or not. If his supplier failed to pay the tax, then the buyer-dealer cannot claim the ITC; this also leads to litigation between the dealer and the Tax Department and amongst the dealer too. Some of the dealers are using this lacuna as their weapon in the settlement dispute of their trading. If a supplier has not paid the tax and absconded in the eyes of the Tax Department, then the Department catches the buyer-dealer and compels that buyer-dealer to pay tax on that particular transaction, thus the buyer-dealer is suffering the pain of twice paying tax, which he has already paid to his supplier. This is the infringement of the constitutional right of a buyer to avail the ITC. There are crores of rupees of fraud as regards wrong ITC; nowadays, the common people of our country have noticed, and are aware of these scandals by reading in newspapers and watching on social media. The tax authorities are just spectators in such cases; they are catching the wrong person, and the culprits are absconding.

Suggestion as to The Levy Concept: It is suggestible that there should not be an ITC claim. The Government has to keep the minimal rate of tax, and then the quantum of the revenue may be compensated from the goods which are tax-free in GST would have been taxed at a very low rate @1%. The revenue can be generated in handsome value by doing so, because the turnover of tax-free goods in India is very huge, which includes agricultural products and goods of essential nature. The following comparative table may clear the picture.

Example of a higher rate of tax (18%) on the goods in the current taxing system (GST)

	Manufacturer	Whole Seller	Dealer	Retailor
Sale	100	200	300	400
Maximum Tax	18	36	54	72
Tax Payable	18	36	54	72
Less: ITC	5	18	36	54
Tax Paid At Each	13	18	18	18

STAGE-----

TOTAL TAX PAID IN ABOVE CASE 13+18+18+18=67

Example of proposed reform (maximum rate of tax @5%)

	Manufacturer	Whole Seller	Dealer	Retailor
Sale	100	200	300	400
Maximum Tax	5	10	15	20
Tax Payable	5	10	15	20

Less: ITC	0	0	0	0
Tax Paid At Each	5	10	15	20

STAGE-----

Total Tax Paid In Above Case 5+10+15+20=50

Then opposition may be faced by the Government regarding the Cascading effect of tax on the purchases. But the plea may be that if it is evident from the above table that not a large amount is spent by the consumer, then the price can be controlled, and the objective of the cascading effect is to cut down the price of the goods, which can be fulfilled in the proposed plan.

By doing so, the people will not feel a pinch to pay tax; they will pay the tax with a smiling face. Similarly, the business people will also be relaxed by simplifying the return process since they do not have to claim ITC; this will reduce the litigation amongst businesses and between businesses and the Department of Tax.

C) Levy of IGST (Integrated Goods and Services Tax): It is a levy on interstate transfer of goods, services, or both. When GST was introduced, the Government highlighted it as **One Nation One Tax**. But after its application, it seems to be the old wine in a new bottle. There is IGST just previously called as CST (The Central Sales Tax). The difference is that the dealer can set it off against the Intrastate as well as the Interstate tax liability. Due to this, the selling State is losing its revenue.

Suggestion As To Removal Of IGST

The removal of IGST will lead towards a healthy competition amongst the States. The States from where the sales have been made that state collect the revenue from the State where the goods have been supplied. As the revenue will be subject to the State Treasury, the respective State will fall under a competition, which will be helpful to increase our State-wise GDP as well as our National GDP.

Today, the dealers are also required to claim the ITC of IGST. The dealer must claim the ITC in respect of IGST as per the provisions of the GST. The dealer first sets the ITC of IGST against any IGST liability of the dealer for that month. Then, if any amount remains as excess IGST, then it will be adjusted against the CGST liability and if there after some amount remaining as IGST ITC, then such amount can be adjusted from SGST. Then, after any excess remains then it can be carried forward in the next month and can be adjusted in the same manner mentioned here in above in the next month. This is a tedious job for the dealers; the dealers are concerned with their liability and payment of such liability. Such clerical work increases the technicality and consumes the precise time of the dealer, in which he can sell his goods and can thus earn more for himself and for the Government too.

D) Frequent changes in the GST Provisions: The feature of indirect tax in India is the changes, which are so frequent that the dealers are required to consult the tax consultant, whereas the Government affirms that they are simplifying the taxation system in India. The frequent changes create scarcity in trade and commerce. If the taxing system in India is simplified, then no dealer requires hiring consultants; then why should they pay a consultant if the system is so simplified? Especially in the case of GST, the Government has set a legislative committee known as the GST Council as a medium between the Government and the Trade.

As per the direction of the Finance Ministry, the GST Council is making changes, and the council is also receiving many suggestions from the Trade, making the required changes. This is leading to very frequent changes, which creates an ambiguity amongst the dealers and the implementing agency. Today, the dealer in the eyes of the Government is a tax evader (a thief) and the Government in the eyes of the trade is a deteriorative one. This scene is not a favourable situation for a developing country like India.

A Peculiar Suggestion: In India, the gambling tax is not there, because gambling in the eyes of our Law is an immoral act and, hence, it is illegal. But a question arises, then the business of lottery (especially the online lotteries) is carried by the Government, how can it be said that it is a moral act? simply because this act is done by the Government? If any person other than the Government organises the lottery business, then it is an immoral act; it is moral only when it is being conducted by the Government. This is the policy of appeasement and needed to be reformed to make the gambling business legal, and then the tax can be levied. Many countries on this earth have legalised the gambling business. Though it is an illegal business in India, people are involved in this business in large numbers. It is a peculiar suggestion that this business has to be legalised so that the revenue can be generated in a large volume. Though the Government has taken many steps to stop this business, despite this, the business of gambling is widening day by day, having a huge turnover. Hence, it is suggestible to legalise this business and to levy the GST on it.

Conclusion and Effect of the Above Discussion

➤ **Principal changes:**

- (a) In the rate of tax, the Minimum Rate of Tax must be considered.
- (b) Removal of IGST
- (c) No ITC.
- (d) To legalise the gambling business and a levy is suggested.

➤ **Operational Change:**

- (a) Return filling process to be simplified. No doubt the payment of tax, now become easier due to online payment of tax.
- (b) Minimal changes, no frequent changes.
- (c) The Information Technology (ITC) should be more user-friendly.

These changes may bring the following:

- ✓ The indirect tax collection will be increased, which may lead to minimising even the rate of direct tax, which can lead to overall prosperity of the Nation.
- ✓ The minimal rate of indirect tax will lead to stop the evasion of tax.
- ✓ The process of tax payment thus becomes smoother and with a smiling face.
- ✓ A trustworthy atmosphere amongst the taxpayers and the Government.
- ✓ The scarcity, thus, can be abolished amongst the trade.
- ✓ The economy of the nation will become healthier.
- ✓ The GDP may be increased.
- ✓ The export can be increased
- ✓ A boost will be available to the concept of Make in India.
- ✓ The plan for the future can be framed by the Government for the betterment of the people.

- ✓ An overall wealthier environment can be generated within India.

These are the views of the paper writer. It is not affirmed here that this is the final destiny of the taxing concept and system in India. As discussed here, the core of any system within a country is the subjects (citizens) of that country, and all these subjects are human beings, and the human behaviour (wants and needs) is flexible, unpredictable, and infinite; hence, the scope of reform always lies there accordingly, review and reform will be required from time to time.

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